

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 04 LIMA 004633

SIPDIS

E.O. 12958: N/A

TAGS: [PGOV](#) [PINR](#) [PREL](#) [PE](#)

SUBJECT: DECENTRALIZATION: MAKING DEMOCRACY WORK IN PERU,  
PT 1

REF: A. LIMA 3267

[B](#). 03 LIMA 5143

[C](#). 03 LIMA 4668

[D](#). 03 LIMA 0253

-----  
SUMMARY  
-----

[1](#)1. Peru will hold referenda in 16 of its 25 departments on 10/30, in which voters will decide whether to consolidate their departments into up to five macro-regions. The formation of macro-regions would be a major step forward in Peru's ongoing decentralization process, which is aimed at devolving resources and decision-making to regional and local governments. Decentralization, one of the Toledo Government's priorities, is intended to enhance democracy at the local level and provide a mechanism to address more efficiently Peru's major social issues. If handled poorly, however, it could exacerbate the very social and political problems the reform is intended to resolve. Given the historical concentration of population and revenue in Lima, the diversity of actors involved and the power and resource shifts at stake, the challenge is daunting. This cable focuses on the decentralization process and where it stands. Septel will focus on the 10/30 referenda and their implications. END SUMMARY.

-----  
THE DECENTRALIZATION VISION  
-----

[1](#)2. Decentralization is intended to shift political, administrative and economic responsibility from the national government to regional governments and to provincial/district municipalities. Proponents argue that the transfer of these programs and resources will enable local governments to address more effectively regional development issues and will lead to strengthened democratic institutions, increased accountability, and greater political stability.

[1](#)3. The three levels of government (national, regional, municipal) are to share responsibilities for social programs, education, public health, tourism, citizen security, housing, and environmental management. The regional governments (RGs) are assuming exclusive responsibility for economic development in their geographic areas. They will be authorized to design and implement regional infrastructure projects related to highways, water, energy, communications and other services. RG projects will be funded through the transfer of public resources from the Central Government and through concessions and joint ventures with private companies.

[1](#)4. Local governments (LGs) will have exclusive responsibility for planning urban and rural development for areas circumscribed by their jurisdictions. LGs will also manage local public services, create spaces for citizen participation, and develop their budgets. LGs are to obtain their funding through local taxes and Central Government transfers.

-----  
A HISTORY OF FAILED DECENTRALIZATION  
-----

[1](#)5. Peru has attempted to decentralize no less than seven times since its independence. Past efforts have consistently failed; population and resources have steadily become more centralized in Lima.

[1](#)6. The last decentralization effort was launched in 1987 when then-President Alan Garcia began implementing a National Plan for Regionalization based on provisions of the 1979 constitution. The reform proved disastrous. It was executed without consultations simultaneously throughout the country with little preparation, leftist extremists won most of the regional races, and many of the new regional assemblies elected regional presidents and tried to repeal national legislation.

[1](#)7. The reform's deathblow came in 1992 with President Alberto Fujimori's "auto-golpe" and constitutional suspension. To consolidate control, Fujimori ceased the

transfer of agencies from the ministries to the regional governments, brought local projects back under central administration, and replaced elected regional governments with appointed Regional Administration Transitional Councils (CTARs). Fujimori's 1993 Constitution maintained the 1979 provisions for autonomous and directly elected regional governments, but effectively dismantled all previously created decentralization structures and called for a slower reform process.

-----  
DECENTRALIZATION UNDER TOLEDO  
-----

18. Alejandro Toledo emphasized decentralization as part of his 2001 campaign platform, promising to hold regional elections along with previously scheduled provincial/municipal balloting in November 2002. After taking office, however, the Toledo Administration kept decentralization on the backburner. Political pressure, particularly from the opposition APRA party, forced the President to convoke elections for regional governments as promised. The GOP and Congress then scrambled to draft legislation to create regional governments, promulgating the requisite law only the day before the elections were held. Subsequent legislation governing the process has emerged in bits and pieces, often containing provisions that conflict with terms in other decentralization laws.

19. The hurried ad-hoc nature of the GOP's approach to decentralization has handicapped the process from the beginning. Experts unanimously agree that Peru should have between four and eight regions. Given the GOP's rush to fulfill its promise to elect regional officials, however, the Organic Law on Regional Governments simply took the country's existing 24 departments and transformed them into "regions." In addition, since the port city of Callao traditionally rejects being linked to Lima, it was deemed a separate region, resulting in a total of 25 regional governments.

10. The 10/30 referenda are intended to rectify this situation, with 16 of the regions voting as to whether they will combine into up to five macro-regions. Unfortunately, the GOP's disorganized approach to establishing the ground rules continues; the law providing financial incentives for the formation of macro-regions was only recently passed, much of the electorate remains uninformed about the referenda (National Decentralization Council chief Luis Thais estimates that up to 25% of eligible voters remain unaware that the 10/30 referenda is being held) and, with but three days to go before balloting, Congress is still debating whether blank/null votes will be counted in the balloting, whether macro-regions will be formed if only some of the departments vote in favor, and where the capitals of the new macro-regions will be located.

11. The 2002 election of regional presidents (RPs) were free and fair, and all 25 RPs took office without any hitches in January 2003. There was no/no second round runoff balloting, however, and the large number of candidates competing for most positions resulted in a majority of the RPs being elected with less than 30 percent of the vote. This has subsequently raised questions as to the RPs political legitimacy, and has encouraged them to take populist stands vis a vis the Central Government (RPs regularly take the lead in organizing regional strikes; the Cuzco and Huanuco coca ordinances recently overturned by the Constitutional Tribunal) and other RPs (border disputes between Ica and Lima and between Moquegua and Arequipa) to broaden their public appeal.

12. The performance of the RGs has varied according to local circumstances and individual leadership (Refs A, B). The most recent poll (by the IMASEN consultancy) in the 16 regions that will be voting on 10/30, found that half the RPs have approval ratings under 20 percent, with only Lambayeque's Yehude Simon above 40 percent. Four RPs have been removed from office for corruption and other violations: APRA's Max Ramirez (San Martin) and Freddy Ghilardi (Ancash), and two independent leftists, Luis Beltran (Apurimac) and Rafael Rios (Madre de Dios). Puno's David Jimenez Sardon, an independent, was suspended for several months in 2005 because of corruption charges but has recently returned.

13. Since taking office, the RPs have been engaged in a constant struggle with the Central Government over the control of resources, infrastructure projects and hiring of personnel. RPs are particularly insistent on their desire for more big-ticket infrastructure projects to create jobs and improve transportation/communication linkages. The GOP has responded by transferring management of several large-scale infrastructure projects to selected RGs, such as the Olmos irrigation project to Lambayeque and the similar Majes project to Arequipa.

14. The GOP also created a system of accreditation to control the transfer of resources and authorities to the RGs to ensure that the latter were prepared to handle the new

responsibilities. To date a small percentage of the promised transfers have been made as implementation of the accreditation system has been delayed and some sectors lack the political will to transfer resources. Public investment at the regional level continues to be managed by the central government. Municipal and district governments have fared better. According to the USAID-supported NGO PRODES (Pro-Decentralization Program), up to 90 percent of the local governments it works with in seven regions satisfactorily utilize mandated participatory budget mechanisms. Municipalities have increased their budgets and responsibilities through transfers of social programs.

-----  
THE PLAYERS  
-----

15. Decentralization reform requires the coordination of numerous actors, each naturally protective of their own bureaucratic interests. Stakeholders include branches of national, regional and local governments; political parties; NGO's and other sectors of civil society; and members of the international community.

16. The GOP, in 2002, created the National Decentralization Council (CND), to lead and facilitate the reform process. The CND director, Luis Thais, holds Cabinet rank, and the CND includes eight other members, representing the President's Council of Ministers, the Ministry of Economy and Finance, and regional and local governments. The CND develops decentralization policy, coordinates economic development plans, accredits municipal and regional governments, trains personnel, and handles fund and program transfers.

17. Regional and local governments are popularly elected. Both RGs and LGs also include two types of councils. The first are Regional or Municipal Councils, which serve legislative and oversight functions and consist of the President, Vice-President, and popularly-elected representatives. The second type of council, called Regional or Municipal Coordination Councils, is advisory. They are elected bodies, made up of civil society leaders and mayors, which meet at least twice a year to offer non-binding advice on development plans and annual budgets. Civil society is also represented on the "mesas de concertacion" or dialogue roundtables created in 2001 during President Paniagua's caretaker government. The mesas offer recommendations to local authorities on development plans; their influence varies by region. The involvement of the Catholic Church in the mesas adds to their political weight.

18. Before regional presidents were elected, the affairs of the departments were managed through Prefects, SubPrefects (provincial level) and Governors (district). The prefects will continue to report to the Ministry of the Interior and are considered the national government's representative in the department. For the near future, prefects will continue to be officially in charge of security for the departments whose boundaries for the time being are coequal with the regions, as national police commanders in departments are also reporting to their PNP superiors in Lima, the scope of a prefect's authority is often blurred. Econoff's informal sampling of a number of prefects, subprefects and governors in several departments East of the Andes revealed a universal belief that there will be a role for them in the decentralized system, as the representative to the national government for the ordinary citizen, and to ensure security of the state. The prefects are normally from the political party of the president, so new officials will be appointed with the new administration.

-----  
USG ASSISTANCE  
-----

19. USAID supports two decentralization assistance projects: PRODES and Participa Peru. PRODES trains local and regional governments to improve governance practices (planning and budgetary processes and accountability) and to handle the transferred governmental competencies. PRODES operates in seven regions - Ayacucho, Cuzco, Huanuco, Junin, Pasco, San Martin and Ucayali ) covering more than 500 municipalities (30 percent of all municipalities in the country). Participa Peru focuses on transparency issues and information dissemination. Total USAID funding for these programs has totaled USD \$24.5M since their inception in 2002. Restrictions on the use of ESF, due to Peru's failure to sign an Article 98 agreement, however, will result in reduced support to public institutions at all levels of government, which could affect program success.

-----  
COMMENT  
-----

20. A successful decentralization process holds the promise

of bringing democratic governance closer to the people, of more efficiently addressing the country's major social and political problems, and of reversing the Lima-centric political/economic/social culture that has historically marginalized Peru's hinterland. An unsuccessful process, on the other hand, could aggravate these same conditions, leading to increased conflict between Lima and the interior. Unfortunately, the GOP's hurried and haphazard approach to decentralization has resulted in an unworkable number of regions, a mishmash of often ambiguous and contradictory legislation, and RG officials who came into office facing huge public expectations without the preparation or the bureaucratic apparatus to meet them.

21. The 10/30 referenda offer a partial solution to the first problem. Toledo's successor, along with the next Congress, will have the task of rationalizing the existing legislation/regulations and promoting the continued consolidation of mini-regions into macro-regions. Given the low popularity of the current crop of RPs, it seems likely that a whole new group of RPs will be elected in November 2006 and take office in January 2007. The absence of a civil service regime governing regional employees will likely result in the wholesale replacement of existing RG personnel, and the consequent need to train the new bureaucrats so that the next set of RGs can develop anew the technical capabilities to handle their responsibilities. In sum, decentralization is a necessary step for Peru, but remains a flawed work in progress. END COMMENT.  
STRUBLE